

Keeping an open mind on market themes

By Anthony Aboud

17 August 2021



In a crazy 12 months for markets, it became clear to us that what was a logical and compelling macro view one moment could fundamentally change a few months' later. While you cannot completely divorce your macro view from bottom-up stock picking, we resisted the temptation to make investment decisions based purely on our macro view.

Between July and October 2020 interest rate expectations were zero or negative, and all everyone wanted to buy was structurally growing companies, which were COVID beneficiaries with massive total addressable markets (TAMs). Then, when the better than anticipated vaccine efficacies were announced in November 2020, the market shifted its view on global economies having a low to negative growth outlook, to one with a sharp V-shaped recovery. Buoyed by loose monetary policy and supportive fiscal stimulus, consumer and business confidence bounced back quickly, and the narrative in investment markets shifted to reflation. In this environment, any cyclical company with some exposure to the strengthening economy was bought aggressively.

Moving to the beginning of this calendar year, all the debate was about long-term inflation vs deflation and whether the signs of inflation would be sustained or transitory. At the beginning, the inflationists were winning the debate and we started seeing long dated treasuries sell off viciously (higher yields) at the beginning of 2021. Over the last couple of months, with another spike in COVID cases and some slightly more hawkish tones from the Federal Reserve, the “transitory” inflation narrative is starting to gain more popularity.

As illustrated in this brief recap, every few months a popular macro narrative seems to take hold and all market participants jump on board. The one learning we take from this is to keep an open mind. What may seem completely logical and compelling one minute may completely change in a few months’ time for reasons that were not even considered before. There are so many variables driving the macro, some of which are predictable, others of which are very hard to predict. While you cannot completely divorce your macro view from bottom up stock picking, we resisted the temptation to make investment decisions based purely on our macro view.

We are always looking at ways to improve our performance. Hence, we consistently assess historic investment decisions to determine whether or not we could have made better decisions. You cannot change the past, but you can learn from it. The end of a financial year is a good opportunity to more thoroughly go through investment decisions made over the previous twelve months, to both analyse and learn from mistakes and success. It is important to separate luck from skill. In hindsight, everything is obvious. Investing involves predicting the future which is an imperfect art. You can handicap certain outcomes, but every now and again, you can be either lucky or unlucky when an impossible-to-predict event occurs.

[Read the full newsletter.](#)

Find out more about [Perpetual's Pure Equity Alpha Fund](#).

This information has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act. This information, including any assumptions and conclusions is not intended to be a comprehensive statement of relevant practice or law that is often complex and can change.

The product disclosure statement (PDS) for the relevant Fund, issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.